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SUBJECT: COUNTDOWN TO CROSS-STRAIT FLIGHTS: VIEW FROM SHANGHAI

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¶1. (SBU) SUMMARY: Shanghai is watching closely as China and Taiwan prepare to implement a recently negotiated agreement launching weekend cross-strait charter flights and opening Taiwan to Mainland tourists. Local travel companies Shanghai Airlines and Shanghai CYTS Tours seem positive on the opportunity to offer improved travel options and hopeful that initial successes may translate into significant future profits. Despite numerous restrictions on Mainland travelers and likely competition for seats from the Taiwan business community, the chance to visit Taiwan appears to be generating some interest among average Chinese citizens. END SUMMARY.

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BACKGROUND  
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¶2. (SBU) On June 12, Taiwan's Straits Exchange Foundation (SEF) and China's Association for Relations across the Taiwan Strait (ARATS) reached consensus on launching weekend charter flights on July 4 and opening Taiwan to Mainland tourists on July 18. The Chinese cities participating in the flight arrangement will include Beijing, Shanghai, Xiamen, Nanjing, and Guangzhou. In Shanghai, Shanghai Airlines and China Eastern Airlines will operate the Taiwan-bound flights. On June 26, Econoffs and Econ FSN met with Yu Heng, Director for Taiwan, Hong Kong and Macao Affairs at Shanghai Airlines, who provided an upbeat assessment of his company's logistical preparations for the cross-strait flights and expectations for the program's future. (China Eastern, a partially state-owned firm, declined to speak with ConGenOffs.) Separately, Econ FSN spoke with Jinjiang Travel and Shanghai CYTS Tours, the two major travel agencies in Shanghai handling Taiwan tours.

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¶3. (SBU) Yu confirmed that Shanghai Airlines' charter flights between Shanghai and Taipei will commence July 4, and eventually total 18 round-trip flights, Friday through Monday, per weekend. All will depart from Pudong International Airport, selected over Hongqiao Airport for its capacity to accommodate the additional traffic. Initially, the majority of the flights will land at Taipei's Songshan Airport, although nearby Taoyuan International Airport may play a larger role in the future.

¶4. (SBU) Yu noted that logistics cooperation between the two sides has been relatively smooth. Both pilots and crew have been able to obtain necessary visas through a special channel. Meanwhile, Shanghai Airlines and Taiwan's EVA Air have agreed to provide landing and technical assistance to the other's arriving flights at Pudong and Songshan/Taoyuan Airports, respectively.

While EVA Air lacks representation at Pudong, Shanghai Airlines has a representative at Songshan to facilitate the arrangement and is negotiating with EVA Air to have another assigned to Taoyuan.

15. (SBU) Though the Taipei-bound flights no longer need to land in Hong Kong, they must still traverse Hong Kong air space, bringing total travel time to approximately 2 hours and 45 minutes. Yu optimistically expects negotiations between Chinese and Taiwan authorities will result in a direct air route within a few months, reducing flying time to a mere 70 minutes.

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SALES ARE BRISK  
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16. (SBU) Yu reported strong sales, with 90 percent of seats on Shanghai Airlines' flights already taken. The company is charging RMB 3700 (USD 540) for individual roundtrip tickets and RMB 2600 (USD 380) and up for group tickets offered through tour packages. As things stand, individual travel is more difficult to arrange, requiring approval from both Taiwan and Mainland authorities as well as a Taiwan-issued tourist visa. Still, the majority of sales have been to individual customers from the Taiwan business community in Mainland China. This is largely because, with the exception of an inaugural tour that leaves July 4, Mainland tours to Taiwan will not begin until July 18. Additionally, China Eastern is positioning itself to take a greater share of the tour group market. Shanghai Airlines expects increased demand from Mainland residents after more tours begin, and hopes scheduled flights might constitute the next stage of cross-Straits travel agreements, perhaps after the Olympics. Yu did not have a clear sense of foreign passenger interest in the charter flights. It is his understanding, Yu stated, that foreign passengers are eligible to fly on the cross-Straits charter flights, but the company has not received clear guidance on this from the government.

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HEALTHY TOURIST DEMAND  
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17. (SBU) In separate conversations, Econ FSN spoke with local travel agencies to discuss application procedures and gauge interest in Taiwan travel. Jinjiang Travel is currently taking reservations for trips beginning July 18, but has not finalized the details for the tour packages it will offer. Shanghai CYTS Tours, on the other hand, will send the first all-Taiwan tour to Taipei on July 4, and is offering 8 day (RMB 8800, or USD 1282) and 10 day (RMB 12880, or USD 1876) packages. Shanghai CYTS reported that bookings for its Taiwan tours have been better than expected. The majority of participants are senior citizens, which the agency attributes to a curiosity or affinity toward Taiwan resulting from years of Mainland Cold War mentality.

18. (SBU) A number of regulations govern Chinese eligibility and behavior during travel to Taiwan. Chinese from 13 provinces may take advantage of the program, but must hold a hukou permit as proof of residency in those 13 provinces. Applicants are required to submit copies of their permit and personal ID card, a certificate of employment, detailed background information, and three photos. Agencies are barring Chinese with "political issues" and government employees from participating, the latter restriction to encourage ordinary citizens to travel to Taiwan. Tourists will be required to put down a deposit -- likely to be a whopping RMB 50,000 (USD 7283) -- refundable on their return to China, though this requirement has been waived for July 4 tour participants. Tourists must remain with their tour group for the duration of the trip.

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COMMENT  
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19. (SBU) Despite the travel restrictions and likely competition for seats from the Taiwan business community, the chance to visit Taiwan appears to be generating some Mainland interest.

Shanghai Airlines and Shanghai CYTS Tours, on the whole, seem positive on the opportunity to offer improved travel options and expanded Taiwan tourism, and hopeful that initial successes might translate into bigger profits in the future.

JARRETT